

**RECO INTERNATIONAL GROUP INC.**  
(Unaudited)  
Interim Condensed Consolidated  
Financial Statements  
For the Nine Months Ended  
June 30, 2022  
(Expressed in Canadian Dollars)

#

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, "Continuous Disclosure Obligations", Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The Company's external auditors, RSM Alberta LLP, have not performed a review of these interim condensed consolidated financial statements.

"Hugh Zhen"  
Signed  
**Hugh Zhen**  
President and Chief Executive Officer

"William Harper"  
Signed  
**William Harper**  
Interim Chief Financial Officer

August 22, 2022

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Financial Position

June 30, 2022

(Expressed in Canadian Dollars)

	June 30, 2022	September 30, 2021
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 124,036	\$ -
Accounts receivable (Note 4)	675,455	431,683
Share subscriptions receivable	600,000	-
Amounts receivable from related parties (Note 5)	29,337	-
Prepaid expenses and other	<u>29,530</u>	<u>29,530</u>
	<b>1,458,358</b>	<b>461,213</b>
<b>Deposits</b>	<b>11,104</b>	<b>11,600</b>
<b>Equipment</b> (Note 6)	<u>783,558</u>	<u>167,714</u>
	<b>\$ 2,253,020</b>	<b>\$ 640,527</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 7)	\$ -	\$ 73,288
Accounts payable and accrued liabilities (Note 8)	835,723	452,372
Amounts payable to related parties (Note 5)	437,265	686,690
Current portion of lease liability (Note 10)	<u>202,890</u>	<u>82,345</u>
	<b>1,475,878</b>	<b>1,294,695</b>
<b>Long-term debt</b> (Note 9)	<b>70,000</b>	<b>70,000</b>
<b>Lease liability</b> (Note 10)	<u>500,911</u>	<u>70,000</u>
	<b>2,046,789</b>	<b>1,364,695</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Share capital</b> (Note 11)	<b>2,305,117</b>	<b>1,105,117</b>
<b>Share-based compensation reserve</b>	<b>208,935</b>	<b>208,935</b>
<b>Deficit</b>	<u>(2,307,821)</u>	<u>(2,038,220)</u>
	<b>206,231</b>	<b>(724,168)</b>
	<b>\$ 2,253,020</b>	<b>\$ 640,527</b>

Reporting entity and going concern (Note 1)

Approved on behalf of the Board

\_\_\_\_\_  
Director\_\_\_\_\_  
Director

See accompanying notes to the interim condensed consolidated financial statements

#

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Comprehensive Loss

For the Three and Nine Months Ended June 30, 2022

(Expressed in Canadian Dollars)

	<b>Three Months Ended June 30, 2022</b>	Three Months Ended June 30, 2021	<b>Nine Months Ended June 30, 2022</b>	Nine Months Ended June 30, 2021
<b>Revenue</b>	<b><u>\$ 525,194</u></b>	<u>\$ 295,875</u>	<b><u>\$ 1,759,261</u></b>	<u>\$ 1,018,334</u>
<b>Expenses</b>				
Salaries and benefits	<b>220,578</b>	219,677	<b>486,692</b>	618,229
Materials and supplies	<b>185,249</b>	174,501	<b>435,691</b>	411,524
General and administrative	<b>286,577</b>	52,793	<b>485,489</b>	217,083
Subcontracts	<b>238,715</b>	20,635	<b>503,999</b>	181,033
Finance costs	<b>7,115</b>	4,863	<b>13,185</b>	13,366
Depreciation	<b>42,288</b>	32,273	<b>103,806</b>	96,820
	<b><u>980,522</u></b>	<u>504,742</u>	<b><u>2,028,862</u></b>	<u>1,538,055</u>
<b>Net loss and comprehensive loss</b>	<b><u>\$ (455,328)</u></b>	<u>\$ (208,867)</u>	<b><u>\$ (269,601)</u></b>	<u>\$ (519,721)</u>
<b>Net loss per common share</b>				
- basic and diluted (Note 12)	<b><u>\$ (0.012)</u></b>	<u>\$ (0.008)</u>	<b><u>\$ (0.010)</u></b>	<u>\$ (0.020)</u>

See accompanying notes to the interim condensed consolidated financial statements

#

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Changes in Equity (Deficiency)

For the Nine Months Ended June 30, 2022

(Expressed in Canadian Dollars)

---

	<u>Share Capital</u>		<u>Share-Based Compensation Reserve</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, October 1, 2021</b>	<b>25,635,635</b>	<b>\$ 1,105,117</b>	<b>\$ 208,935</b>	<b>\$ (2,038,220)</b>	<b>\$ (724,168)</b>
<b>Private placement</b>	<b>24,000,000</b>	<b>1,200,000</b>	-	-	<b>1,200,000</b>
<b>Net loss</b>	-	-	-	<b>(269,601)</b>	<b>(269,601)</b>
<b>Balance, June 30, 2022</b>	<b><u>49,635,635</u></b>	<b><u>\$ 2,305,117</u></b>	<b><u>\$ 208,935</u></b>	<b><u>\$ (2,307,821)</u></b>	<b><u>\$ 206,231</u></b>

	<u>Share Capital</u>		<u>Share-Based Compensation Reserve</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, October 1, 2020	25,635,635	\$ 1,105,117	\$ 208,935	\$(1,546,560)	\$ (232,508)
Net loss	-	-	-	(519,721)	(519,721)
Balance, June 30, 2021	<u>25,635,635</u>	<u>\$ 1,105,117</u>	<u>\$ 208,935</u>	<u>\$(2,066,281)</u>	<u>\$ (752,229)</u>

See accompanying notes to the interim condensed consolidated financial statements

#

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Interim Condensed Consolidated Statement of Cash Flows

For the Nine Months Ended June 30, 2022

(Expressed in Canadian Dollars)

	June 30, 2022	June 30, 2021
<b>Cash Provided by (Used in):</b>		
<b>Operating Activities</b>		
Net loss	\$ (269,601)	\$ (519,721)
Items not involving cash:		
Depreciation	103,806	96,820
Finance costs	11,527	7,200
Net change in non-cash working capital balances (Note 13)	<u>140,074</u>	<u>352,035</u>
	<u>(14,194)</u>	<u>(63,666)</u>
<b>Investing Activities</b>		
Purchase of equipment	<u>-</u>	<u>(1,433)</u>
	<u>-</u>	<u>(1,433)</u>
<b>Financing Activities</b>		
Proceeds from private placement	600,000	-
Advances from related parties	-	21,961
Payments to related parties	(278,762)	-
Advance from long-term debt	-	10,000
Repayment of long-term debt	-	(87,517)
Repayment of lease obligation	(104,059)	-
Interest paid	<u>(5,661)</u>	<u>(7,200)</u>
	<u>211,518</u>	<u>(62,756)</u>
<b>Increase (Decrease) in cash</b>	<b>197,324</b>	<b>(127,855)</b>
<b>Cash (bank indebtedness), beginning of period</b>	<u>(73,288)</u>	<u>133,071</u>
<b>Cash, end of period</b>	<u>\$ 124,036</u>	<u>\$ 5,216</u>

See accompanying notes to the interim condensed consolidated financial statements

#

# **RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

---

## **1. Reporting Entity and Going Concern**

### **Reporting Entity**

Reco International Group Inc. (the “Company”) was incorporated under the Alberta Business Corporations Act on October 12, 1999 and is in the business of commercial and residential construction and millwork operating in British Columbia. The Company is traded on the TSX Venture Exchange under the symbol RGI.

The head office and principal address of the Company is #100, 2051 Viceroy Place, Richmond, British Columbia, V6V 1Y9.

These interim condensed consolidated financial statements were approved by the Board of Directors on August 22, 2022.

### **Going Concern**

These interim condensed consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. The Company has a working capital deficiency of \$17,520 (September 30, 2021 - \$833,482) and an accumulated deficit of \$2,307,821 (September 30, 2021 - \$2,038,220). The Company’s ability to continue as a going concern is dependent on continued support from related parties and continuing to generate a profit from operations.

On March 11, 2020, the World Health Organization assessed the coronavirus outbreak (COVID-19) as a pandemic. In Canada, the Government of British Columbia declared a provincial state of public health emergency as per the Province of British Columbia’s Emergency Program Act on March 17, 2020 with respect to COVID-19. The Company has been impacted from COVID-19 as certain projects have been on hold as a result of business closures. As of the date of these interim condensed consolidated financial statements, the extent to which COVID-19 impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted and dependent upon new information which may emerge concerning the severity of COVID-19 and actions taken to contain this or its impact, among others. The impact of COVID-19 may have an effect on the Company’s ability to generate a profit from operations, and accordingly affect the going concern uncertainty.

These interim condensed consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the statement of financial position classifications that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

## **2. Basis of Presentation**

### **a) Statement of Compliance**

These interim condensed financial statements have been prepared in accordance and compliance with International Accounting Standard 34, (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. The disclosure herein is incremental to the disclosure included in the annual consolidated financial statements. The interim condensed consolidated financial statement should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2021.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

---

## 2. **Basis of Presentation** (Continued)

### b) Basis of Measurement

These interim condensed consolidated financial statements have been prepared on the historical cost basis.

### c) Functional Currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

### d) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were valuation of accounts receivable, estimated useful life of equipment for use in calculation of depreciation, recognition of deferred tax assets, estimating percentage of completion for revenue recognition, and share-based compensation reserve.

#### Accounts Receivable

The valuation of accounts receivable is based on management's best estimate of the lifetime expected credit loss related to these accounts.

#### Equipment and Right-of-Use Asset

The amounts recorded for depreciation is based on management's best estimate of the useful lives of the assets.

#### Income Taxes

The amounts recorded for deferred income taxes is based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on the probability of the Company being able to utilize the tax assets.

#### Going Concern

The assessment of the Company's ability to continue as a going concern through achieving profitable operations, continued financial support from related parties or accessing additional funding involves judgment based on historical experience and expectation of future events.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

## 2. Basis of Presentation (Continued)

### d) Use of Estimates (Continued)

#### Revenue

The progress towards the complete satisfaction of the performance obligation on a project is the basis that management uses to determine the recognition of revenue. The revenue recognized is based on the costs incurred on the project in relation to management's estimate of the total costs expected for the project. However, due to unforeseen changes in the nature or cost of the work to be completed, contract profit can differ significantly from earlier estimates.

## 3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements for the year ended September 30, 2021.

## 4. Accounts Receivable

Accounts receivable is comprised of the following items:

	<u>June 30, 2022</u>	<u>September 30, 2021</u>
Trade accounts receivable	\$ 670,991	\$ 429,327
Goods and Services Tax receivable	<u>4,464</u>	<u>2,356</u>
	<u>\$ 675,455</u>	<u>\$ 431,683</u>

## 5. Related Party Balances and Related Party Transactions

- a) As at June 30, 2022, amounts receivable from related parties of \$29,337 consists of unsecured advances that bear no interest and have no specific terms of repayment from companies that have common management and directors with the Company (September 30, 2021 - \$nil).
- b) As at June 30, 2022, amounts payable to related parties of \$437,265 consist of advances from a company controlled by a director of the Company for general working capital purposes (September 30, 2021 - \$686,690). Amounts are unsecured, bear no interest and have no specific terms of repayment.
- c) During the three and nine months ended June 30, 2022 and 2021, key management includes senior executives of the Company, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"). The compensation expense paid to key management for employee, consulting and management services are as follows:

<b>Three months ended</b>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Salaries and other short-term employee benefits	\$ 18,940	\$ 55,320
Management fees	\$ 120,126	\$ -

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

**5. Related Party Balances and Related Party Transactions (Continued)**

Nine months ended	June 30, 2022	June 30, 2021
Salaries and other short-term employee benefits	\$ 18,940	\$ 168,960
Management fees	\$ 120,126	\$ 52,500

**6. Equipment**

	<b>Cost</b>						<b>Balance at June 30, 2022</b>
	Balance at September 30, 2020	Additions	Disposals	Balance at September 30, 2021	Additions	Disposals	
Equipment	\$ 575,118	\$ -	\$ -	\$ 575,118	\$ -	\$ -	\$ 575,118
Office furniture	85,781	1,433	-	87,213	-	-	87,213
Computer equipment	72,688	-	-	72,689	-	-	72,689
Vehicles	170,973	-	-	170,973	-	-	170,973
Right-of-use asset	271,379	-	-	271,379	719,650	-	991,029
	<u>\$ 1,175,939</u>	<u>\$ 1,433</u>	<u>\$ -</u>	<u>\$ 1,177,372</u>	<u>\$ 719,650</u>	<u>\$ -</u>	<u>\$ 1,897,022</u>

	<b>Accumulated Depreciation</b>						<b>Balance at June 30, 2022</b>
	Balance at September 30, 2020	Additions	Disposals	Balance at September 30, 2021	Additions	Disposals	
Equipment	\$ 475,165	\$ 19,990	\$ -	\$ 495,155	\$ 11,994	\$ -	\$ 507,149
Office furniture	82,782	600	-	83,382	555	-	83,937
Computer equipment	66,250	2,450	-	68,700	1,072	-	69,772
Vehicles	154,602	4,285	-	158,887	2,350	-	161,237
Right-of-use asset	101,767	101,767	-	203,534	87,835	-	291,369
	<u>\$ 880,566</u>	<u>\$ 129,092</u>	<u>\$ -</u>	<u>\$ 1,009,658</u>	<u>\$ 103,806</u>	<u>\$ -</u>	<u>\$ 1,113,464</u>

	<b>Net Book Value</b>	
	<b>Balance at June 30, 2022</b>	<b>Balance at September 30, 2021</b>
Equipment	\$ 67,969	\$ 79,963
Office furniture	3,276	3,832
Computer equipment	2,917	3,988
Vehicles	9,736	12,086
Right-of-use asset	699,660	67,845
	<u>\$ 783,558</u>	<u>\$ 167,714</u>

**7. Bank Indebtedness**

The Company has available a line of credit of \$100,000 bearing interest at prime plus 3.5%, secured by a general security agreement and is due on demand. No amount has been drawn on the line of credit as at June 30, 2022 (September 30, 2021 - \$73,288 draw on the line of credit).

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities are comprised of the following items:

	<b>June 30, 2022</b>	September 30, 2021
Trade payables	\$ 517,903	\$ 232,068
Accrued liabilities	211,493	128,031
Goods and Services Tax payable	76,327	62,273
Customer deposit	<u>30,000</u>	<u>30,000</u>
	<b><u>\$ 835,723</u></b>	<b><u>\$ 452,372</u></b>

**9. Long-term Debt**

	<b>June 30, 2022</b>	September 30, 2021
CEBA loan, interest free, no principal payments until December 2023, repayment of loan balance on or before December 31, 2023 will result in forgiveness of \$30,000. After December 31, 2023, unpaid balance is payable over 2-year term at interest of 5% per annum.	<b><u>\$ 70,000</u></b>	<b><u>\$ 70,000</u></b>

The Company received a \$100,000 COVID-19 relief line of credit from the Canada Small Business Financing Program as support for businesses. Since \$30,000 of the loan amount will be forgiven if the Company repays the loan before December 31, 2023, the Company has recognized \$30,000 as government assistance at the time the loans were obtained and the remaining balance outstanding of \$70,000 has been reflected above.

**RECO INTERNATIONAL GROUP INC.**

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

**10. Lease Liability and Right-of-Use Asset**

Effective June 1, 2022, the Company extended its office premises lease for an additional three (3) years. The current office premises lease expires on May 31, 2025. The associated lease liability and right-of-use asset information is summarized below:

	<u>June 30, 2022</u>	<u>September 30, 2021</u>
<b>Right-of-Use Asset</b>		
Balance, start of period	\$ 67,845	\$ 169,612
Modification – extension of lease term	719,650	-
Less - depreciation	<u>(87,835)</u>	<u>(101,767)</u>
Balance, end of period	<u>\$ 699,660</u>	<u>\$ 67,845</u>
<b>Lease Liability</b>		
Balance, start of period	\$ 82,345	\$ 199,911
Modification – extension of lease term	719,650	-
Less – lease payments	(104,059)	(126,289)
Add – finance expense	<u>5,865</u>	<u>8,723</u>
Balance, end of period	<u>\$ 703,801</u>	<u>\$ 82,345</u>
Less – current portion	<u>\$ (202,890)</u>	<u>\$ (82,345)</u>
	<u>\$ 500,911</u>	<u>\$ -</u>

Lease Commitments years ended June 30 – undiscounted cash flow:

2023	\$ 243,988
2024	263,792
2025	<u>272,484</u>
Total lease commitment	780,264
Future interest portion	<u>(76,463)</u>
	<u>\$ 703,801</u>

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

## 11. Share Capital

Authorized:

Unlimited common voting shares

Unlimited redeemable, retractable, non-voting preferred shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the designation, rights and privileges attached to each series of shares.

Issued and outstanding:

	Number of Common Shares	Amount
Balance, September 30, 2021	25,635,635	\$ 1,105,117
Private placement	<u>24,000,000</u>	<u>\$ 1,200,000</u>
Balance, June 30, 2022	<u>49,635,635</u>	<u>\$ 2,305,117</u>

During the nine months ended June 30, 2022, the Company completed issued 24,000,000 common shares at a price of \$0.05 per common share for gross proceeds of \$1,200,000. As at June 30, 2022, \$600,000 of the gross proceeds were still receivable.

### Share-Based Compensation Plan

Under the Company's Share-based Compensation Plan, options to purchase common shares of the Company may be granted to directors, officers, key employees and consultants of the Company. These options entitle the holder to purchase one common share at a subscription price that shall not be less than that which may be acceptable to any stock exchange on which the Company's shares are traded. Options expire between two and five years after being issued or ninety days after an employee ceases employment with the Company. The Board of Directors has the discretion to extend the expiration period on cessation of employment. The terms and vesting period of each option is at the discretion of the Board of Directors.

The maximum number of common shares authorized for issuance by the Board of Directors under the plan is limited to 20% of the total issued and outstanding common shares of the Company.

There are no stock options issued during the nine months ended June 30, 2022. The following table summarizes information on stock options outstanding and exercisable at June 30, 2022:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Weighted Average Contractual Life (years)</u>
\$ 0.05	5,100,000	5,100,000	1.43

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

## 12. Earnings Per Share

The basic earnings per share is based on the weighted average number of common shares outstanding which was 36,432,338 and 27,380,412 during the three and nine months ended June 30, 2022, respectively (three and nine months ended June 30, 2021 - 25,635,635). The diluted earnings per share is equal to the basic earnings per share and does not include the stock options because they are anti-dilutive.

## 13. Non-Cash Working Capital Balances

The net change in non-cash working capital balances consists of:

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
Accounts receivable	\$ (243,772)	\$ 497,817
Deposit	495	-
Accounts payable and accrued liabilities	<u>383,351</u>	<u>(145,782)</u>
	<u>\$ 140,074</u>	<u>\$ 352,035</u>

## 14. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, share subscriptions receivable, deposits, accounts payable and accrued liabilities, amounts payable to related parties and long-term debt.

### Financial risk management

The Company's activities are exposed to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate fair value risk and cash flow risk arising from its fixed rate long-term debt and bank indebtedness respectively. Management does not believe this risk is significant.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

## 14. Financial Instruments (Continued)

### Credit risk

The Company's exposure to credit risk relates to cash, deposits, accounts receivable, and share subscriptions receivable that arises from the possibility that the third party does not satisfy its contractual obligations. The credit risk for cash is mitigated with the Company holding cash with major financial institutions. The credit risk for deposits and share subscriptions receivable is low due to the credit worthiness of the counter-parties. The Company's maximum exposure to credit risk is equal to the carrying value of the accounts receivable. The Company minimizes its exposure to credit risk on accounts receivable through a program of credit evaluation of customers or obtaining deposits on projects.

The aging of accounts receivable is as follows:

	<u>June 30, 2022</u>	<u>September 30, 2021</u>
Current	\$ 1,812	\$ 82,917
0- 90 days	336,217	127,183
Over 90 days	<u>332,962</u>	<u>219,227</u>
	<u>\$ 670,991</u>	<u>\$ 429,327</u>

During the three and nine months ended June 30, 2022, approximately 76% and 77% of total revenues are from three customers, respectively (three and nine months ended June 30, 2021 – approximately 87% and 79%). As at June 30, 2022, approximately 57% (September 30, 2021 – 49%) of the Company's accounts receivable balance is with three customers.

The Company performs continuous evaluation of its accounts receivable and records an expected credit loss based on recoverability of receivable balances from each customer taking into account historic collection of past due accounts. There has been no expected credit loss recorded for accounts receivable since the amount was determined to be nominal based on historical collections.

### Liquidity risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and share subscriptions receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at June 30, 2022, the Company was holding cash of \$124,036 (September 30, 2021 – \$73,288 bank indebtedness), accounts receivable of \$675,455 (September 30, 2021 - \$431,683), share subscriptions receivable of \$600,000 (September 30, 2021 - \$nil), amounts due from related parties of \$29,337 (September 30, 2021 - \$nil) and had a working capital deficit of \$17,520 (September 30, 2021 - \$833,482).

As at June 30, 2022, the Company's contractual obligation consists of accounts payable and accrued liabilities of \$835,723 (September 30, 2021 - \$452,372) that have a current contractual maturity. Amounts payable to related parties of \$437,265 (September 30, 2021 - \$686,690) have no fixed terms of repayment. Repayment of the \$70,000 CEBA loans is not required until December 31, 2023. The lease liability of \$703,801 must be repaid in accordance with Note 10.

# RECO INTERNATIONAL GROUP INC.

(Unaudited)

Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

---

## 14. Financial Instruments (Continued)

### Fair value

The fair value of cash, accounts receivables, share subscriptions receivable, amounts due from related parties, deposits, accounts payable and accrued liabilities and amounts payable to related parties approximate their carrying amounts due to the short-term nature of these financial instruments. The fair value of the long-term debt approximates its carrying amount since its terms approximates market terms.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at June 30, 2022, the Company does not have any financial instruments measured at fair value.

## 15. Capital Management

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include sustaining continuing operations. The Company includes shareholders' equity of \$206,231 (September 30, 2021 – deficiency of \$724,168) and amounts payable to related parties of \$407,929 (September 30, 2021 - \$686,690) in the definition of capital.

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities.

Historically, funding for the Company's plan was primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required. The Company is not subject to externally imposed capital requirements.